

Meeting Minutes
Friday, December 12, 2008
The AESO Boardroom
9:00 – 11:00



ILRAS Working Group Meeting
Review of the AESO Recommendation Paper Entitled
Import Capability of the Alberta-BC Intertie

(Minutes Distributed on January 7, 2008)

In attendance:

Stakeholders:

Evan Bahry (IPPSA)	Victoria Bellissimo (IPPCA)	Rick Cowburn (UCA)
Peter Exall (BP)	Colette Kearl (ADC)	Horst Klinkenborg (ATCO Power)
Stan Miller (ATCO Electric)	Damian Opel (Direct)	Jim Paton (TransCanada)
Grant Pellegrin (Valeo Power)	Miles Stroh (FortisAlberta)	Paul Tung (Enmax)

AESO:

Paul Barry	Heidi Kirrmaier	David Michaud
Cliff Monar	Jerry Mossing	

1. DECISIONS MADE

- The AESO recommendation to address import capability in the near-term should be implemented.
- The group acknowledged that cost allocation is an issue that merits future consideration.

2. AESO NEXT STEPS

- The AESO will conclude the ILRAS Working Group consultation process on measures to increase import capability on the Alberta-BC intertie.
- Implementation of the proposal to address near-term import capability will include the following measures by the AESO:
 - a) Continue the ILRAS agreement with FortisAlberta to facilitate imports for energy shortfall events only.
 - b) Run a RFP for competitive procurement of LSR and Fast Ramp services to be used for reliability and/or 'in market' imports.

If there is insufficient interest to provide a contestable outcome and fulfill the minimum effective amount of at least 70 MW, then no further competitive procurement attempts for LSR and Fast Ramp will be conducted. If service providers are established, the AESO may attempt to re-run the RFP in the future.

- c) If LSR services are contracted in the RFP, then the AESO will review whether or not it is possible to reduce the volume provided under the ILRAS agreement with FortisAlberta or, if possible, terminate the ILRAS agreement.
- The AESO has committed to undertake a broader stakeholder consultation on interties in 2009 – see section 3.4.2.

3. DISCUSSION SUMMARY

3.1 Introduction

The paper was summarized and comments were solicited.

3.2 ILRAS

Attendees supported continuation of the ILRAS agreement with FortisAlberta, to facilitate imports for energy supply shortfall events only.

3.3 RFP for LSR or Fast Ramp

3.3.1 Standing Offers

- Suggestion that there may be value in having a standing offer that would allow parties to choose to participate after the RFP is completed. AESO staff responded that they would consider the idea and that another RFP could be held if there is sufficient interest at a later date.

3.3.2 Timing

- Has the timing of the RFP been decided? AESO staff mentioned that they are open to a flexible process.
- It was suggested that the stakeholder group reconvene after the RFP concludes, in order to review the level of interest and prices. AESO staff responded that they would be deciding how to proceed and would be discussing the initiative with the AESO Executive, and that Stakeholders would be updated.
- Can the RFP be circulated to ensure that it includes a broad range of invitees, such as micro-generators. The AESO will consider circulating the RFP before it is issued.

3.3.3 Prices

- Will there be a cap on prices? AESO staff responded that there likely wouldn't be a cap. The AESO will wait to see the volume and types of offers, and will discuss next steps with the MSA before contracting with providers.
- Could the price for volumes procured in the RFP be used as a competitive benchmark that companies could rely on when deciding whether or not to invest in technology that would enable them to provide LSR or Fast Ramp services? AESO staff responded that they will consider the idea and recognized that there are already competitive benchmarks established for similar services to LSR. (e.g. LSS and supplemental load)

3.3.4 Volume

- Is 70 MW the minimum volume of LSS that must be acquired in order for the RFP to be deemed successful? AESO staff suggested that at least 70 MW of LSS would be required and that roughly 70 to 100 MW of fast ramp service would be needed in order to generate a measurable response.

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- What is the maximum volume requirement of LSR or Fast Ramp? The maximum volumes are 485 MW and 150MW for LSS and Fast Ramp, respectively.
 - Generally speaking, 70 MW of LSR equates to how many MW's of imports? AESO staff responded that roughly 50 MW of imports would be enabled and that the services relate to frequency rather than to a specific type of service such as 'reliability' or 'in market' imports.
 - If less than 70 MW is procured, then can eligible volumes be held in a queue? AESO staff responded that they are confident that at least 70 MW will be available.
 - Would LSR be used to replace ILRAS service provided by FortisAlberta? AESO staff responded that it will attempt to competitively procure this service to either replace or partially replace FortisAlberta if possible.

3.4 Allocation of Costs for LSR and Fast Ramp Services

ATCO Power (ATCO) expressed a concern with the second half of the recommendation. ATCO explained that while they do not oppose the AESO running an RFP for competitive procurement of LSR services for 'in market' imports, they do have concerns related to cost allocation. ATCO requested that cost allocation be dealt with before LSR products enter into service.

3.4.1 The Arguments of ATCO

- Allocation of costs to load customers represents a market power (FEOC) issue. Loads are willing to pay the cost of LSR and Fast Ramp services because increased imports have the effect of decreasing pool price.
- It is worthwhile to take some time to consider cost allocation before proceeding, since the existing agreement with FortisAlberta for ILRAS lessens the need for 'reliability' services.
- ATCO is of the view that increased interties are positive, for economic transactions. However they would like uneconomic imports prohibited - they recommend importers pay the cost of the services that enable 'in market' imports (and likewise, for exporters to see the cost of their activity). ATCO suggested an alternative solution that would allocate the costs of 'in market' services to importers on a per-use basis.
- Direct Energy stated its support for ATCO's position. They explained that they would not oppose the AESO's recommendation to procure LSR and Fast Ramp services for 'in market' imports, but would put their concerns on the record.

They feel that LSR and Fast Ramp costs should be borne by the importer and that the potential issue of importer market power needs to be addressed.

The Arguments of Other Attendees

- It is wrong for any party to import uneconomically in order to suppress pool price. This issue is about capacity and not timing. Given that competition is the basis for the market and in light of the physical realities of the Alberta electrical system, it is worthwhile for the AESO to procure services in order to increase tie-line capacity. Development of the Alberta power market takes precedence over a potential short term negative impact to a company's profit.
- Loads don't take issue with paying for the cost of operating reserves. In fact, allocation of costs to loads is similar to the treatment of all transmission elements in Alberta. An established cost allocation process is in place. Why change it?
- Is ATCO suggesting that the inter-tie should be limited or that restoration of inter-tie capacity should be delayed while a new cost allocation policy is developed and implemented?
- Addition of a large generator that would become the single largest contingency would likely lessen the volume of available import capacity. The AESO would procure ancillary services based on the system impact of the new unit and costs would be allocated to loads. The new generator would not have to bear the cost. The same principle should hold true for the services that enable imports on the tie-line.
- The scope of the issue is broader than LSR and Fast Ramp services. It involves cost causation of ancillary services and transmission investment, which are issues that have implications for market development. It was also suggested that perhaps this issue results from a conflict between Section 6 of the Electric Utilities Act and the Transmission Regulation. Consideration of such a broad-based issue would likely involve consideration of ADoE policy and legislation.

3.4.2 AESO Comments

- The AESO presented its recommendation on how to restore the interties, that increased interties are good for the market and that all transmission element costs are allocated to loads in the Alberta market. New generators are not charged for incremental ancillary services that they necessitate.
- The AESO has committed to not stray from this cost allocation philosophy in the near term. In 2009, the AESO will consult internally and with stakeholders

on the efficiency of the cost allocation philosophy in every application and on the treatment of interties in a broader forum.

- The AESO explained that costs for ILRAS, LSR and Fast Ramp may be considered in a number of venues, including the following:
 - a) The AESO budget review process;
 - b) Complaints brought before the AUC;
 - c) Deferral account proceedings before the AUC; and/or
 - d) The AESO 2010 General Tariff Application.

The December 8, 2008 AESO recommendation paper entitled *Import Capability of the Alberta-BC Inter-tie* is attached below.

AESO Recommendation Paper
Import Capability of the Alberta-BC Inter-tie
December 8, 2008

1. Summary

Starting in 2009, the AESO will initiate consultation with Stakeholders regarding the import and export capabilities of existing inter-ties in Alberta. The legislative guidance provided in Appendix 1 forms the basis for this work and the related consultation. Outcomes of this initiative will provide long-term guidance on the treatment of the existing inter-ties.

In recognition of this upcoming broader consultation, the AESO intends to conclude the consultation (done primarily through the ILRAS Working Group, since late 2007) respecting measures focused on increasing only the import capability of the Alberta-BC inter-tie.

After consideration of the views expressed by Stakeholders in this regard, the AESO has developed a proposal to address import capability in the near-term, while the broader initiative is being worked on.

This recommendation paper provides a brief background of the issue, a summary of views expressed by Stakeholders, and presents recommended next steps.

The AESO will be holding an ILRAS Working Group session on December 12, 2008. Stakeholders are encouraged to provide their comments regarding the proposal recommended in this document at the meeting. The AESO's intention is to finalize the next steps shortly after this meeting, and, as noted above, subsequently end the ILRAS Working Group.

2. Background

Since 1998, an Interruptible Load Remedial Action Scheme (ILRAS) has been in place to facilitate imports over the Alberta-BC inter-tie. The scheme effectively enables import levels to exceed 450 MW by 'arming' some loads to be interrupted in the event of a contingency on the inter-tie. The current and sole ILRAS agreement is between FortisAlberta, an electricity distribution facility owner, and the AESO.

For a number of years, there has been concern that FortisAlberta customers face a greater risk of interruption relative to other load customers in Alberta due to this arrangement. To partially address this concern, the ILRAS contract was altered in January, 2007 such that ILRAS is now only enabled for imports during energy supply shortfall events, rather than for all imports including those that are 'in-market'. This has

had the effect of significantly reducing the number of hours FortisAlberta customers are at risk of interruption due to the ILRAS arrangement.

In late 2006 the AESO initiated a competitive procurement process for ILRAS that would be used for supply shortfall events and for 'in-market' imports; however, the Expression of Interest (EOI) failed to attract sufficient interest to allow termination of the ILRAS arrangement.

In October 2007, the AESO issued a Discussion Paper which proposed that eligible distribution companies provide ILRAS service during energy shortfall events and also to enable 'in-market' imports, on a mandatory, regulated basis. Stakeholders expressed concerns related to the proposal, and the ILRAS Working Group was subsequently established to further review the issue.

In April 2008, the AESO confirmed that an LSR service (Load Shed Requirements, having a slightly slower required trip time compared to ILRAS) could be used in place of ILRAS, and the working group recommended an EOI be issued for LSR. The AESO issued an EOI for LSR in June 2008, but it also failed to attract sufficient interest to allow for the replacement of ILRAS.

3. Summary of Working Group Input

Below is a summary of some of the feedback received from Stakeholders.

Please refer to the AESO website for complete documentation related to the ILRAS consultation: www.aeso.ca > Tariff > Current Consultations > ILRAS Procurement.

- The AESO should competitively procure as much of the necessary services as possible;
- Concern about the AESO suggestion to regulate (i.e. make mandatory with AUC approval) all or a portion of the requirements, even after attempting to procure the service competitively;
- Concern with the AESO's potential pricing mechanism for a regulated service;
- The views of some Stakeholders were conditioned on whether the necessary services were being used to facilitate imports during energy supply shortfall events or during normal conditions;
- Concern with imports being price takers and the potential distortion this creates in the market;
- Questions regarding whether the necessary service is an ancillary service. If it is not an ancillary service, then should importers bear the cost?

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- Concern that a distinction was being made to procure [ancillary] services to accommodate Alberta generation versus imports; and
 - Symmetry should apply to measures that were taken with regard to other steps to facilitate imports and exports.

4. Proposed Near-Term Next Steps

After consideration of the views expressed by Stakeholders, the AESO has developed the following proposal which it recommends be implemented in the near term, and allow for the broader consultation process to take place with regard to the existing inter-tie capabilities.

1. Continue with the ILRAS agreement with FortisAlberta in order to facilitate imports for energy supply shortfall events only, until such time the service is no longer required (see further steps below).

Rationale:

ILRAS is an effective tool for ensuring reliable operation of the electrical system. Continuation of the current arrangement is reasonable given that the infrastructure is in place, ILRAS has only been armed for five hours during the past year, and no interruptions to service occurred.

2. The AESO will run an RFP for competitive procurement of LSR and Fast Ramp services to be used for reliability and/or 'in market' imports. The volume (MW) solicited would be less than the volume that was identified as available in the 2008 EOI - in an effort to facilitate a contestable outcome - but at least 70 MW (which is the minimum effective amount).

The counterparties who are currently contracted to provide Load Shed Service (LSS) would be eligible to participate in the RFP and would be allowed to terminate their LSS contracts without penalty if chosen as LSR providers.

Potential LSR and Fast Ramp suppliers and AESO would need to agree on terms and conditions for the service to ensure it is operational and effective.

If there is not sufficient interest in the RFP to provide a contestable outcome and fulfill the minimum effective requirement, no further competitive procurement attempts for LSR and Fast Ramp will be conducted and the AESO will defer implementation of solutions until consultation on the broader inter-tie initiative is concluded. On the other hand, if some service providers are established after the initial RFP, the AESO would attempt to re-run the RFP in the future in order to attempt to grow the market.

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Rationale:

Allows for the development of a competitive market for LSR and Fast Ramp, should there be sufficient interest in providing this service. Conversely, it does not make it mandatory for load customers to accept the need for and costs of increased capability for in-market imports if there is no voluntary market for the associated service.

3. Once/if LSR services are contracted, review whether it is possible to reduce the MW's provided under the ILRAS agreement or terminate the ILRAS agreement altogether. LSR could potentially replace some or all of the ILRAS service if the following conditions are met:
 - LSR service would be effective during supply shortfall events;
 - LSR suppliers and AESO can agree on terms and conditions for applying the service in all supply shortfall events; and
 - It is possible for the AESO to efficiently operate during supply shortfall events, with a combination of ILRAS and LSR services.

Rationale:

To the extent possible, this may allow the MW's provided under the ILRAS agreement between FortisAlberta and the AESO to be reduced or allow for termination of the agreement altogether, thereby lowering or removing the incremental risk of involuntary interruption to those FortisAlberta loads.

Lastly, the AESO proposes the cost of the services for both energy supply shortfall events and for 'in market' imports should continue to be recovered through the AESO tariff as ancillary services costs. This is consistent with the treatment of ILRAS and LSS today and over the last number of years. Should alternatives be identified through the broader consultation on the inter-tie, these will be considered as part of that initiative.

5. Conclusion

The AESO proposes to implement an interim solution to address import capability of the Alberta-BC inter-tie, with a focus on developing a competitive market to supplement and/or replace ILRAS service provided through FortisAlberta.

An ILRAS Working Group session will be held on December 12, 2008 to provide Stakeholders the opportunity to comment on this proposal. Following the ILRAS Working Group session, the AESO will confirm the approach to be taken, and intends to conclude the ILRAS Working Group.

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With a view to longer term solutions, the AESO will be consulting with industry on the broader initiative aimed at the import and export capabilities of existing inter-ties in Alberta beginning in 2009.

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Appendix 1:

Legislative Guidance for Broader Consultation

This appendix outlines the legislative guidance that will be considered as part of the consultation process on restoring Alberta import and export capabilities.

In November 2003, Alberta Department of Energy published a Policy Paper entitled "Transmission Development, The Right Path for Alberta" which reached a set of conclusions intended to guide transmission development in the Alberta. On these conclusions stated the following;

"Transmission internal to Alberta should be reinforced so that under normal conditions, the existing inter-ties can import and export power on a continuous basis, in accordance with their design capability."

The discussion associated with this conclusion stated:

- *"Under normal conditions, the Alberta transmission system should be reinforced so that the BC Inter-tie is capable of transferring about 1,000 MW for exports subject to availability of generation RAS schemes and about 800 MW for imports subject to suitable load RAS schemes."*
- *"Inter-ties are an essential part of a competitive market both as a means to import power when needed, and to export surplus energy and to support effective functioning of the wholesale market."*
- *"Since the ability of inter-ties to exchange electricity in both directions (i.e. import and exports) is essential to a robust wholesale market and a reliable electric system, the cost for internal reinforcements and RAS arrangements to allow the inter-ties to function as designed will be allocated to load."*

In June 2005, Alberta Department of Energy published a Policy paper entitled "Alberta's Electricity Policy Framework: Competitive – Reliable – Sustainable" which stated the following;

"Transmission interconnections with neighboring jurisdictions are essential to a well-functioning power market as they support reliability, price stability, generation development and continued economic growth in Alberta. Albertans benefit from these interconnections by having the ability to import or export power as needed."

The Transmission Regulation, which was amended in 2007, also addresses the Alberta-BC inter-tie. Section 16 of the Transmission Regulation states that

"In making rules under section 20 of the Act, and in exercising its duties under section 17 of the Act, the ISO must prepare a plan and make arrangements to restore each inter-tie that existed on August 12, 2004 to, or near to, its path rating."

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The Transmission Regulation states that:

“...in exercising its duties under section 17 of the Act, the ISO must...taking into consideration the characteristics and expected availability of generating units, plan a transmission system that ...is sufficiently robust so that 100% of the time transmission of all anticipated in-merit electric energy referred to in section 17(c) of the Act can occur when all the transmission facilities are in service...”

While Section 17 (c) of the EU Act states that the ISO has the duty

“...to determine, according to relative economic merit, the order of dispatch of electric energy....in Alberta and from scheduled exchanges of electric energy ,...between the interconnected electric system in Alberta and electric systems outside of Alberta, to satisfy the requirements for electricity in Alberta;”

In conjunction with the direction provided above on inter-ties, any AESO action must also consider the following:

The Electric Utilities Act, S.A. 2003, c. E-5.1, (EUA) in section 16 states that the AESO “must exercise its powers and carry out its duties, responsibilities and functions in a timely manner that is fair and responsible to provide for the safe, reliable and economic operation of the interconnected electric system and to promote a fair, efficient and openly competitive market for electricity.”